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To the Shareholder:

Data General Corporation was organized in April of 1968 and, in less than two years, has become one of the leading manufacturers of small computers.

Sales for the year ended September 27, 1969, totaled \$1,033,653, and our net loss was \$268,050, or \$.17 per share, based on the weighted average of shares outstanding. In the first quarter of our current fiscal year ended on December 20, 1969, sales exceeded those of the entire 1969 fiscal year. Sales for the first quarter amounted to \$1,115,000 and net earnings were \$88,000, or \$.05 per share. No provision was made for income taxes in view of our tax loss carry forward.

These figures reflect our policy of writing off all development and research costs as they are incurred. While this can produce variations in earnings during any given period, we prefer not to burden future earnings with such costs, particularly since they are so essential in this area of high technology.

Our initial product, the Nova computer, was demonstrated for the first time at the 1968 Fall Joint Computer Conference, just eight months after the inception of the company.

The first Nova was delivered in February, 1969, far ahead of the customary industry timetable. The Nova had been planned on the assumption that the design innovations incorporated in the computer would be enthusiastically accepted in the marketplace. The assumption proved correct. The 100th Nova was delivered before the close of the 1969 fiscal year in September. By the end of calendar 1969, Data General had delivered more than 200 Nova computers.

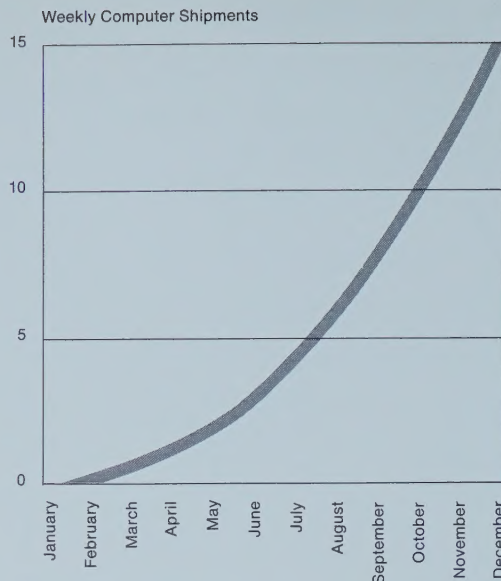
Our second product, the Supernova, was announced in August, 1969. Supernova, the fastest small computer on the market, is designed for those applications where mini-computers have previously been too slow. Because Supernova is five to ten times faster than competitive computers, we expect that it will be well received in applications where speed is a predominant need.

Supernova is similar to Nova in basic design, but it does not make Nova obsolete. While the price of the Supernova is low in relation to its capabilities, the computer is, in fact, several thousand dollars higher in price than the Nova and represents an extension of the range of Data General products.

Data General's growth is illustrated by the increase in the rate of computer shipments throughout the year. As the accompanying chart shows, at the beginning of 1969, the company was just beginning its operations. By March, Data General had established a production line and was shipping computers at the rate of one per week. The shipment rate reached one per day in July and two per day by October. At year's end, the company had the capability to ship at the rate of three computers a day. We now supply a full range of peripherals, including magnetic tape, disks, and analog-to-digital converters, in addition to the standard input/output devices.

Data General started the year with 10 employees. More than 150 people were employed by Data General by year's end, and 60 percent of our personnel were involved directly in the production of computers.

Data General began operations in a storefront location in Hudson, Massachusetts.



In March, 1969, the company moved to its present headquarters, a new 10,000 square foot plant site in Southboro, Massachusetts. Work was begun almost immediately on an addition of 20,000 square feet. That addition was occupied in November and currently houses computer assembly and testing facilities, a machine shop, stockroom and shipping areas, and other production space. Work is nearly complete on a second addition of 40,000 square feet, which will be occupied this Spring. We have agreed to enter into a lease for an additional 150,000

square feet of space and have an option to lease an additional 60 acres of land adjacent to the company's headquarters in Southboro.

The company has also recently obtained a three-year lease for a separate 12,000 square foot plant in Hudson, Massachusetts. We plan to manufacture our own printed circuit boards at this facility.

We have formed a Canadian subsidiary, hired key personnel for that company and are negotiating for plant space in the Ottawa area. This plant will serve Canada and the Commonwealth countries. Sales have begun in Europe, and we anticipate that this area will be the focus of a major marketing effort in 1970.

During 1969, Data General entered into a licensing agreement with Rolm Corporation of Cupertino, California. Under the terms of the agreement, Rolm will produce a ruggedized version of the Nova, thus

providing Data General with access to the severe environment market without capital investment on our part.

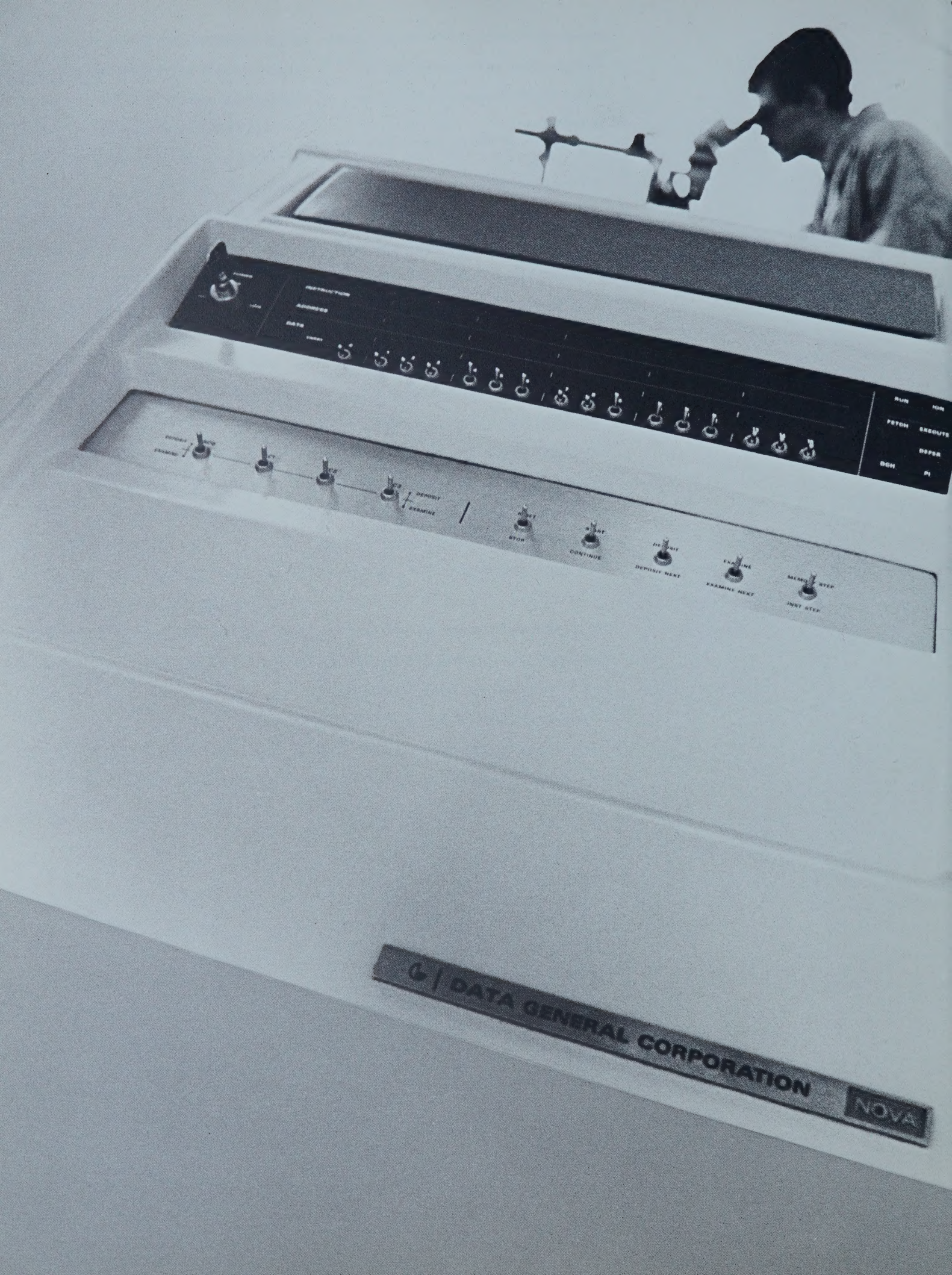
While the growing market for small computers is highly competitive and certain segments within it continue to be price sensitive to a considerable degree, we are extremely optimistic about our industry and more particularly about the future of the company.


Data General currently has more than 100 customers, most of whom buy in quantity. Our expanding product line and software will allow the company to develop systems for an increasing number of markets.

Data General stock was first sold to the public last November. We welcome our new shareholders and thank them for their confidence and support.

Respectfully submitted,

Edson D. de Castro
Edson D. de Castro, President



 DATA GENERAL CORPORATION NOVA

The Minicomputer Market

Much of what the general public has heard about minicomputers is nonsense. Except in publicity releases, small computers are not home appliances nor are they purchased through the mail. Stories such as these contain more glamor than substance.

Minicomputers are simply the smallest size of general purpose computer. They do essentially the same things as larger computers – receive data, store it in memory, manipulate it, and send results back to the outside world. Small computers are programmed in the same way as larger computers and use the same peripheral devices – card punches and readers, paper and magnetic tape, plotters, cathode ray tube displays, printers, and disk memories.

Minicomputers differ from larger computers in that they have more limited ability to handle data, their memories are smaller, and they are often slower. The chief difference between large and small computers is cost. Where large scale computer systems may cost millions of dollars, minicomputers are often priced under \$10,000.

Minicomputers have made it economically feasible to computerize many small jobs for the first time. They are also used to help lower the cost of running larger computers.

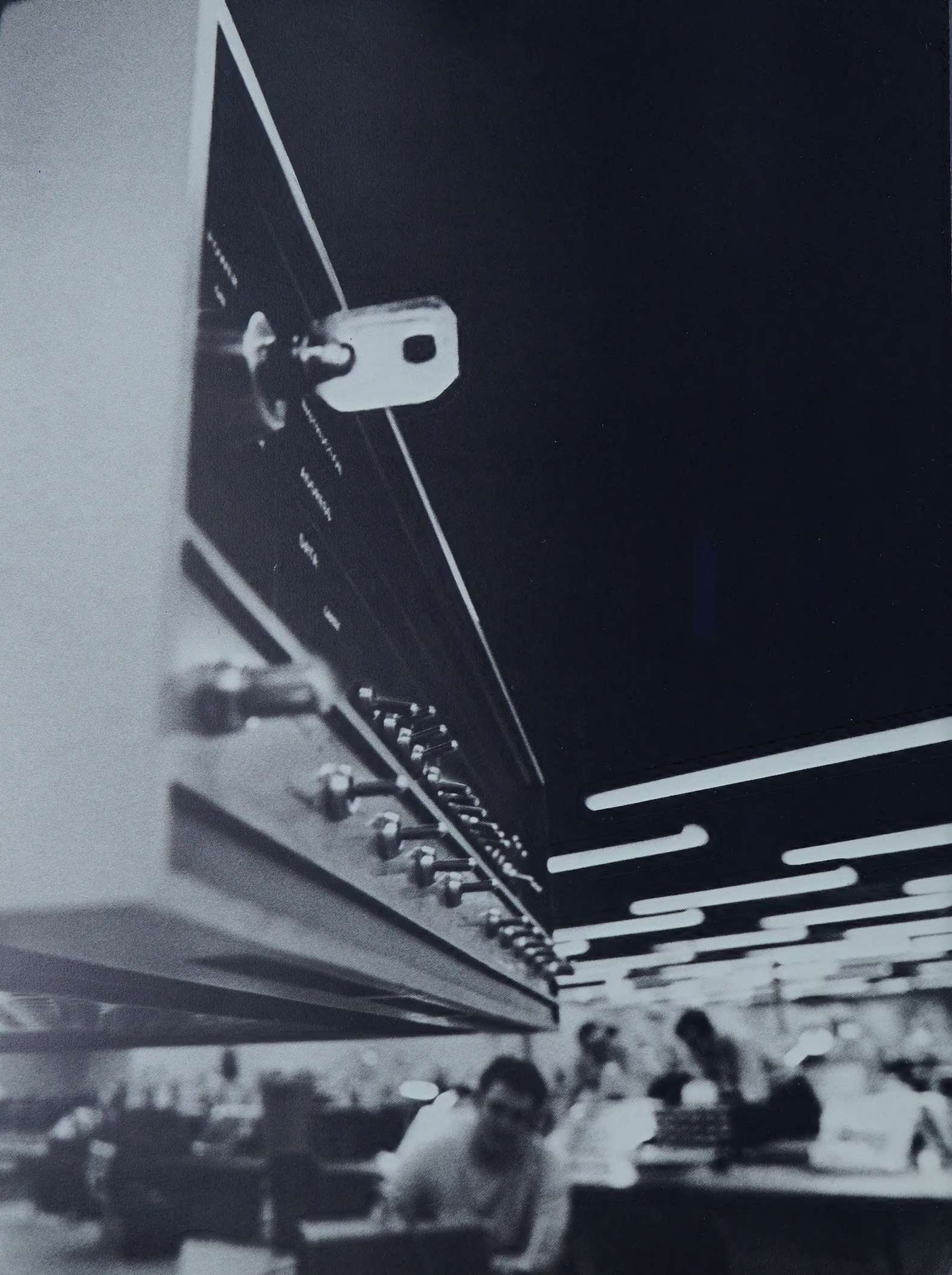
More than 200 applications for minicomputers have been developed in the past few years. Several of these applications have emerged as major new markets requiring thousands of small computers per year.

The initial customers for small computers were university and government researchers looking for the best way to handle data from complex instruments. Until the minicomputer was developed, the only way these men could have their data processed by computer was to carry it to the local computation center.

In a typical minicomputer system, by comparison, data is processed by the computer at exactly the same time it is produced by the measuring instruments.

The researcher or other user can control his work better because the small computer allows him to alter the experiment while it takes place, rather than after it is complete.

Minicomputers make powerful new instruments and quantitative techniques possible. As these instruments and techniques spread from one science to another, so too does the use of small control computers. Laboratory applications constitute about 25 per cent of the current minicomputer market.



An even larger market for minicomputers is in manufacturing. In industrial applications the minicomputer allows a cautious approach to automation.

As in research laboratories, where each small computer is dedicated to the control of a discrete process, a series of minicomputers, each of which operates independently, is used to monitor the various parts of a complex industrial process. Each individual computer controls only that part of the process to which it has direct access.

In numerical control (N/C) applications, minicomputers provide direct computer control of individual machines or machine tools. In addition, small computers allow the user to tie together several separate machines into one integrated manufacturing system. It has been estimated that, by 1972, 20 to 40 per cent of N/C machines shipped will involve direct computer control.

Industrial applications account for 45 per cent of the current market for minicomputers. This is a market that is likely to grow at a very high rate as factories are affected by higher labor costs.

Laboratory and factory applications together comprise more than two-thirds of all current minicomputer installations. Commercial applications – such as the recent use of minicomputers in time-sharing – will account for a major part of the market in the near future.

The chief catalyst in the extension of minicomputers into commercial areas has been the use of small computers in data communications. Here, small computers control the flow of information, rather than some physical process in science or industry.

Minicomputers reduce the costs of transmitting data over long distances by condensing it or putting it into an appropriate format. Small control computers also reduce the overhead costs of more expensive central computers by concentrating data and scheduling its distribution through the system.

Small computers have also recently been incorporated in complex computer system hierarchies to act as sophisticated terminals at the ends of communications lines. In multi-computer networks of this sort, minicomputers serve not only as data collectors and concentrators, but also as stand-alone data processors.

Industrial application of small computers will grow as factories are affected by higher labor costs.



Commercial applications of small computers currently account for just 25 per cent of the market, but will account for a much larger proportion of applications in the future.

Whatever the field of application, most minicomputers are now purchased not from a computer manufacturer, but rather from a varied group of middlemen called "original equipment manufacturers" or "OEM's."

OEM's have had a substantial effect on the growth of the minicomputer industry. They vary widely in size and market orientation. One OEM may be an instrument manufacturer who builds computerized instruments for a field in which he already supplies conventional equipment. Another may be an aggressive technical group working within a larger company. Still another may be a software company which offers hardware systems as well as services.

OEM's are usually computer experts who have helped extend the use of small computers by penetrating new markets and making it easier for the less sophisticated end-user to get over the hurdles of computer usage.

OEM's are important because they buy in volume and thus allow the manufacturer to achieve economy in production and purchasing. But, with its emphasis on quantity sales and discounts, the OEM market can be price sensitive.

By comparison, direct sales to the end-user generate higher profit margins for the manufacturer, but mean a greater strain on his ability to provide programming and services.

Making minicomputers is now a major business emphasizing mass production and marketing as well as engineering. Where a small computer model could be considered a success if it sold 30 units in the mid-1960's, a successful model now must have orders numbered in the hundreds.

The markets of the future will be both more demanding and more rewarding. The successful manufacturer will not just sell a minimum number of computer survival kits to a minimum number of sophisticated customers who require a minimum amount of support.

The commercial field is the single fastest growing segment of the minicomputer market.



Data General Products

Data General Corporation manufactures two minicomputers with an unprecedented record of rapid acceptance within the industry.

The Nova was Data General's first product and also the first minicomputer in the industry to incorporate several of the techniques previously used only in larger computers. The novel design characteristics of the Nova include use of four accumulators in the computer's central processor. This design improves the efficiency of operation and the flow of data between the computer and its associated devices. One result of the Nova's organization is a simpler and more powerful instruction set and easier programming.

The Nova is a 16-bit word, small-scale, general-purpose digital computer. Its basic price is \$7,950, including 4,096 words of core memory and a teletype interface. Additional core memory may be added by the customer in blocks of 2,000 or 4,000 words to a maximum of 32,000. Data General will, at the customer's option, provide read-only memory.

The Nova was designed to offer some of the most flexible input/output (I/O) facilities on the market. As many as 62 devices may be connected to a Nova, and the computer includes a data channel for use in high volume data transmission involving high-speed I/O devices.

The Nova was the first minicomputer to use medium-scale integrated circuitry in its design.



The Nova was the first minicomputer to employ medium-scale integrated circuitry (MSI) in its design.

Supernova, Data General's second product, is the fastest minicomputer on the market. It was designed for a variety of applications in which other small computers have previously proven ineffective. A classic measure of a computer's speed is add-time – how long it takes a computer to add two numbers. Supernova can add two numbers in 300 billionths of a second using read-only memory. This is approximately eight to ten times as fast as the average small computer.

Programs written by a customer on either the Nova or Supernova may be used on the other machine without modification.

System software includes a standard assembler, a relocatable assembler, a relocatable linking loader, a character-oriented text editor, a symbolic debugger, two BASIC system compilers, mathematical routines, floating point interpreter, and hardware diagnostics.

Nova and Supernova offer an extensive list of peripheral equipment including Teletypes, high-speed paper tape readers and punches, card readers, plotters, communications equipment, disks, magnetic tape, and A/D and D/A converters.

Nova and Supernova together comprise one of the most popular series of all minicomputers.

Data General offers an extensive line of peripheral equipment for the Nova and Supernova.

Data General Corporation
Balance Sheet

Assets

September 27, 1969

September 30, 1968

Current assets:

Cash	\$ 22,190	\$ 81,078
Short-term investments, at cost, which approximates market	74,516	320,879
Accounts receivable, less allowance for doubtful accounts of \$10,000 in 1969	404,335	2,060
Inventories, at the lower of cost (on a first-in, first-out basis) or market (Note 1)	290,191	1,457
Prepaid expenses	13,967	3,925
Prepaid stock offering expenses (Note 8)	42,956	—
Total current assets	848,155	409,399

Fixed assets, at cost (Note 2)	119,598	17,945
Less – Accumulated depreciation	21,658	3,609
	97,940	14,336

Other assets:

Organization expenses, net of amortization	5,775	7,425
	<u>\$951,870</u>	<u>\$431,160</u>

Liabilities and Stockholders' Equity

Current liabilities:

Notes payable 9%, due October 31, 1969 (Note 4)	\$150,000	\$ —
Accounts payable	276,875	50,287
Accrued payroll and expenses	95,852	2,300
Total current liabilities	522,727	52,587

Stockholders' equity (Notes 5, 6, 7 and 8):

Common stock – \$.01 par value:

Authorized – 4,000,000 shares in 1969, 2,000,000 in 1968		
Issued and outstanding – 1,760,000 shares in 1969, 880,000 shares in 1968	17,600	6,848
Capital in excess of par value	786,075	491,652
Accumulated deficit	(372,977)	(104,927)
	430,698	393,573
Less – treasury stock, at cost (15,960 shares in 1969, 77,030 shares in 1968)	1,555	15,000
	429,143	378,573

Commitments and contingent liabilities
(Notes 9 and 10)

<u>\$951,870</u>	<u>\$431,160</u>
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Data General Corporation
Statement of Capital in Excess
of Par Value

	Year ended September 27, 1969	Five and one-half months from date of inception to September 30, 1968
Balance at beginning of period	\$491,652	\$ —
Excess of proceeds over par value of capital stock issued upon sale of 1,369,600 and 390,400 shares, respectively (Note 7)	303,048	491,652
Excess of proceeds over cost of 138,100 shares of treasury stock sold under the Company's restricted stock plan (Note 5 and 7)	175	—
Amount transferred to common stock for 2 for 1 stock split effected in the form of a 100% stock dividend declared July 24, 1969 (Note 7)	(8,800)	—
Balance at end of period	<u>\$786,075</u>	<u>\$491,652</u>
All of the above share amounts reflect the 2 for 1 stock split effected in the form of a 100% stock dividend declared July 24, 1969.		

Data General Corporation
Statement of Operations
and Accumulated Deficit

	Year ended September 27, 1969	Five and one-half months from date of inception to September 30, 1968
Net sales	\$1,033,653	\$ —
Costs and expenses:		
Cost of goods sold	626,836	—
Selling expense	159,682	—
General and administrative expense	139,239	44,724
Development expense	246,126	51,142
Promotional expense	168,218	14,818
	<u>1,340,101</u>	<u>110,684</u>
Loss from operations	(306,448)	(110,684)
Interest income, net of expense	6,301	5,757
Loss before extraordinary credit	(300,147)	(104,927)
Extraordinary credit — gain on sale of marketable securities	<u>32,097</u>	<u>—</u>
Net loss (Note 3)	(268,050)	(104,927)
Accumulated deficit, beginning of year	<u>(104,927)</u>	<u>—</u>
Accumulated deficit, end of year	<u>(\$ 372,977)</u>	<u>(\$104,927)</u>
Per average share of common stock outstanding (a):		
Loss before extraordinary credit	(\$.19)	(\$.09)
Extraordinary credit02	—
Net loss	<u>(\$.17)</u>	<u>(\$.09)</u>
(a) Based on the weighted average of shares outstanding during the periods.		

Data General Corporation Notes to Financial Statements

1 – Inventories

Inventories are priced at the lower of cost, on the first-in, first-out method, or market and comprise the following:

	Sept. 27, 1969	Sept. 30, 1968
Raw materials	\$225,099	\$1,457
Work-in-process . .	65,092	—
	<u>\$290,191</u>	<u>\$1,457</u>

2 – Fixed Assets

Fixed assets are summarized as follows:

	Sept. 27, 1969	Sept. 30, 1968	Depre- ciable lives (in years)
Manufacturing and design equipment	\$ 58,691	\$12,808	3-8
Furniture and fixtures	23,447	5,137	5-10
Leasehold improvements	37,460	—	10
	<u>\$119,598</u>	<u>\$17,945</u>	

Depreciation expense is provided on the declining balance method and aggregated \$18,075 for 1969 and \$3,609 for 1968.

3 – Federal Income Tax

No benefit has been recognized for potential future reductions in income taxes which may result from the utilization of the accumulated net operating loss carry-over of \$105,000 expiring in 1973, and \$268,000 expiring in 1974.

4 – Revolving Credit Agreement

The company has entered into a \$750,000 revolving credit agreement expiring December 31, 1970 under which funds may be borrowed from a bank on 90-day notes with interest at $\frac{1}{2}$ of 1% over the prime rate.

Any notes outstanding at December 31, 1970 must be paid in full not later than March 31, 1971. A commitment fee of $\frac{1}{2}$ of 1% of the unused balance is payable quarterly. Working capital, as defined, must be greater than \$300,000 by September 30, 1969, \$500,000 by June 30, 1970, and \$750,000 thereafter.

Under the credit agreement, the bank may request a security interest in all accounts of the company. At October 31, 1969, no such request had been made.

On October 21, 1969, the company repaid the \$150,000 note outstanding at September 27, 1969, and simultaneously borrowed \$350,000 at 9%, due January 13, 1970, under the credit agreement.

5 – Restricted Stock Purchase Plan

The company adopted a restricted stock purchase plan whereby 154,060 shares of common stock are available for purchase once the privilege has been granted to employees at the discretion of the Plan Committee. For the year ended September 27, 1969, privileges were granted to purchase 138,100 shares at prices of \$.005 and \$.10 per share (\$13,620). The fair value of these shares as determined by the board of directors was \$.78125 per share through June 4, 1969, and \$6 per share thereafter.

The privileges are granted subject to restrictions which include, among other provisions, non-competition clauses and holding period limitations. These restrictions lapse no earlier than the second anniversary after the date of grant or the attainment of various achievement goals as specified by the Plan Committee.

When the restrictions lapse on the shares purchased, the company will be entitled to an income tax deduction of \$229,000, or a lesser amount if the fair market value at that time is less than fair value at the date of grant. The appropriate amount will be charged to net income in the period in which the restrictions lapse.

All of the above amounts and shares have been restated to give effect to the 2 for 1 stock split effected in the form of a 100% stock dividend declared on July 24, 1969.

6 – Stock Option Plan

The board of directors and shareholders have approved a qualified stock option plan whereby options may be granted to key employees of the company to purchase 100,000 shares of company common stock at fair market value on the date of grant. Options may not be exercised until one year after the date of grant and expire five years from that date. The plan will terminate on July 24, 1974. To date no grants have been made under this plan.

7 – Stock Split

During 1969 the board of directors and shareholders approved an increase of authorized shares of common stock from 2,000,000 shares to 4,000,000 shares. In addition a 2 for 1 stock split effected in the form of a 100% stock dividend was declared on July 24, 1969. All shares and per share amounts have been restated to give effect to this split.

8 – Common Stock Offering

In connection with a proposed offering of 250,000 shares of the company's common stock, the board of directors has approved an agreement to grant the underwriting firm a warrant to purchase 20,000 shares of common stock. The exercise price is to be based upon the offering price to the public and is to increase from 107% of that price in 1970 to 128% of that price in 1974.

It is expected that the prepaid stock offering expenses will be charged against the proceeds of the offering.

9 – Employment Contracts

The company has three year employment agreements with its officers expiring in May 1971, the terms of which call for the company to pay minimum annual salaries aggregating \$102,500, effective August 1, 1969. In addition, the agreements include two year noncompetition covenants in the event of termination, six months disability clauses and provisions prohibiting such officers from receiving stock options from the company.

10 – Lease Commitments

The company is committed under a lease agreement which expires on January 2, 1974 with a renewal option for five additional years. The current annual rental charge is \$13,000, plus all utilities, general liability insurance, and any increase of initial tax assessment and fire insurance rates. During the year the company exercised its option to expand production facilities and construction is currently in progress. When completed, the company intends to execute a new lease at an annual rental of \$39,000 with a five year renewal option. The company also holds an option to lease an additional 15 acres of land adjoining its present facility to provide for future expansion, on which real estate taxes and municipal assessments must be paid by the company. This agreement may be terminated by the company at any time without penalty.

Opinion of Independent Accountants

To the Board of Directors of
Data General Corporation

In our opinion, the accompanying balance sheet and the related statements of capital in excess of par value and of operations and accumulated deficit present fairly the financial position of Data General Corporation at September 27, 1969 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.
Boston, Massachusetts
October 31, 1969

Transfer Agents & Common Stock Registrars

New England Merchants National Bank
Boston, Massachusetts

First National City Bank
New York, New York



Data General Corporation
Southboro, Massachusetts 01772